

Message Text

CONFIDENTIAL

PAGE 01 MONTRE 00142 01 OF 02 282324Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
AID-05 EB-08 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01
FRB-03 COME-00 SIL-01 LAB-04 SEC-01 OPIC-03 /090 W
-----290001Z 098538 /70

P R 282222Z JAN 77
FM AMCONSUL MONTREAL
TO SECSTATE WASHDC PRIORITY 8525
INFO AMEMBASSY OTTAWA
AMCONSUL QUEBEC
AMCONSUL TORONTO BY POUCH

C O N F I D E N T I A L SECTION 1 OF 2 MONTREAL 142

E. O. 11652: GDS
TAGS: EFIN, ECON, CA
SUBJ: PREMIER LEVESQUE'S APPEARANCE IN NEW YORK

1. SUMMARY: REACTIONS TO LEVESQUE'S SPEECH AND HIS PRIVATE CONVERSATIONS WITH MEMBERS OF FINANCIAL COMMUNITY IN NEW YORK HAVE BEEN LARGELY NEGATIVE. PRUDENTIAL AND METROPOLITAN LIFE INSURANCE COMPANIES, BOTH LARGE INVESTORS IN PROVINCE, WILL MAKE NO MORE INVESTMENTS IN QUEBEC. ONLY EVENT WHICH APPEARS POSSIBLE OF CHANGING INSURANCE COMPANIES' POSITIONS WOULD BE RESOUNDING DEFEAT OF PQ REFERENDUM. DECISION BY INSURANCE COMPANIES NOT TO INVEST IN QUEBEC EXTENDS TO HYDRO-QUEBEC, EVEN THOUGH COMPANY IS HIGHLY REGARDED IN INVESTMENT COMMUNITY. REACTION TO QUEBEC SITUATION WILL MAKE IT DIFFICULT FOR QUEBEC TO RAISE FUNDS AT TOLERABLE COST IN U.S. MARKET. SITUATION MAY BE MORE FAVORABLE, HOWEVER, FOR QUEBEC IN EUROPEAN MARKET, WHERE INVESTORS ARE BELIEVED TO BE LESS CONCERNED ABOUT ISSUE OF SEPARATION. NEVERTHELESS, LEVESQUE ADMINISTRATION WILL BE UNDER INCREASING FINANCIAL PRESSURE, WHICH WILL HAVE SOCIAL AND POLITICAL RAMIFICATIONS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MONTRE 00142 01 OF 02 282324Z

2. CONVERSATIONS WITH REPRESENTATIVES OF FINANCIAL COMMUNITY IN NEW YORK FOLLOWING PREMIER LEVESQUE'S SPEECH TO ECONOMIC CLUB SUGGEST THAT QUEBEC WILL FIND IT SIGNIFICANTLY MORE DIFFICULT TO RAISE MONEY IN U.S. CAPITAL MARKET. REPORTING OFFICER SPOKE WITH SENIOR REPRESENTATIVES OF MOODY'S, STANDARD & POORES, PRUDENTIAL INSURANCE COMPANY AND METROPOLITAN LIFE INSURANCE COMPANY. ALL WERE EXTREMELY WELL INFORMED ON QUEBEC,

AND WERE CANDID IN THEIR COMMENTS, WHICH THEY REQUESTED WE HOLD IN STRICT CONFIDENCE.

3. GENERAL REACTION TO LEVESQUE'S APPEARANCE IN NEW YORK WAS NEGATIVE, AND APPEARED TO BE BASED ON TWO PRINCIPAL FACTORS. FIRST, THERE WAS LITTLE APPRECIATION BEFORE LEVESQUE'S SPEECH OF EXTENT TO WHICH HE IS DEDICATED TO SEPARATION. SECOND, LEVESQUE IMPRESSED PEOPLE AS BEING A HIGHLY ARTICULATE, PERSUASIVE POLITICIAN, EVEN UP-STAGING GOVERNOR CAREY WHO SPOKE IMMEDIATELY BEFORE HIM. AS A RESULT, SOME WHO WERE NOT PREVIOUSLY WORRIED ABOUT POSSIBILITY OF SEPARATION ARE NOW CONCERNED ABOUT WHAT LEVESQUE, WITH HIS POLITICAL GIFTS, MAY BE ABLE TO ACCOMPLISH OVER NEXT SEVERAL YEARS IN WAY OF GAINING PUBLIC SUPPORT FOR PQ'S OBJECTIVES.

4. VICE PRESIDENT IN CHARGE OF METROPOLITAN'S INVESTMENTS IN CANADA, WHICH INCLUDE ABOUT \$750 MILLION IN QUEBEC, INCLUDING MONTREAL'S PLACE VILLE MARIE, SAID THAT HIS COMPANY HAD PREVIOUSLY THOUGHT THAT LEVESQUE COULD BE PUSHED AROUND, AND MADE TO RESPOND TO FINANCIAL REALITIES. AFTER SPEECH AND FEEDBACKS FROM PRIVATE MEETINGS, HE SAID THAT THIS WAS OBVIOUSLY NOT THE CASE, AND THAT LEVESQUE SCARED HELL OUT OF THEM. SENIOR VICE PRESIDENT, AND VICE PRESIDENT OF PRUDENTIAL, WHICH HAS NEARLY \$1 BILLION INVESTED IN QUEBEC AND WAS LEAD IN RECENT SIDBEC-NORMINES FINANCING, WERE BOTH AWARE OF LEVESQUE'S COMMITMENT TO SEPARATION, BUT WERE SURPRISED AT WAY SPEECH WAS HANDLED IN NEW YORK. HAD LEVESQUE PLACED MORE EMPHASIS ON OTHER FACETS OF PQ PROGRAM, MENTIONING SEPARATION AS ONE OF PRIORITIES TOWARDS WHICH PQ WOULD WORK, THEY THOUGHT REACTION MIGHT HAVE BEEN CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MONTRE 00142 01 OF 02 282324Z

DIFFERENT. BUT IMPRESSION WHICH THEY THOUGHT LEVESQUE LEFT IN FINANCE COMMUNITY, BASED ON NUMBER OF CONVERSATIONS, WAS THAT SEPARATION WAS BE-ALL AND END-ALL OF PQ AND A GOAL TO BE ACHIEVED REGARDLESS OF COST. THEY WERE AWARE OF FIRST BOSTON'S ADVICE TO LEVESQUE TO LAY IT ON LINE, BUT THOUGHT EVEN FIRST BOSTON WAS SURPRISED BY WAY IT CAME OUT.

5. AS A RESULT OF THEIR REACTIONS TO LEVESQUE'S SPEECH AND PRIVATE MEETINGS THAT HE HAD IN NEW YORK, BOTH METROPOLITAN AND PRUDENTIAL INSURANCE COMPANIES SAID THEY WOULD MAKE NO MORE INVESTMENTS OVER FORESEEABLE FUTURE IN QUEBEC, AND THAT MORATORIUM APPLIED TO HYDRO-QUEBEC AS WELL. EVEN IF INVESTMENTS COULD BE JUSTIFIED ON ECONOMIC BASIS, AND IN HYDRO-QUEBEC'S CASE PRUDENTIAL THOUGHT THEY PROBABLY COULD, FUND MANAGERS HAD SEVERAL SOUND REASONS FOR AVOIDING QUEBEC. IN FIRST INSTANCE PRUDENCE REQUIRES THAT INSURANCE COMPANIES AVOID INVESTMENTS THAT MIGHT BECOME ENTANGLED IN POLITICAL PROBLEMS. IN VIEW OF NEW AWARENESS OF LEVESQUE'S OBJECTIVES IT WOULD BE DIFFICULT TO EXPLAIN TO POLICY AND SHAREHOLDERS ANY NEW INVESTMENTS IN

QUEBEC. FURTHERMORE, FUND MANAGERS ARE REQUIRED TO REPORT ON HOLDINGS ON A MONTHLY BASIS. GIVEN PREVAILING OPINION THAT QUEBEC SECURITIES WOULD UNDER PERFORM MARKET, FUND MANAGERS DID NOT WANT THEM IN PORTFOLIO, EVEN THOUGH YIELD WAS ATTRACTIVE.

6. PRUDENTIAL AND METROPOLITAN BOTH SAID THAT MORATORIUM ON QUEBEC INVESTMENTS WAS NOT YET COMPANY POLICY AS BOARDS HAD NOT YET MET, BUT IT WAS FOREGONE CONCLUSION THAT MORATORIUM WOULD BECOME OFFICIAL. ONLY EVENT THAT COULD CHANGE POLICY TOWARD QUEBEC WOULD BE EARLY REFERENDUM IN WHICH PQ SOUNDLY DEFEATED WITH LEVESQUE AND PQ ABANDONING OBJECTIVE OF SEPARATION. PRUDENTIAL REPRESENTATIVE SAID THAT CHAIRMAN OF BOARD MCNAUGHTON, ON BASIS OF PRIVATE MEETINGS AND SPEECH, THOUGHT LEVESQUE WAS "CRAZY" AND THAT THEY DID NOT WANT TO BE PLACED IN SAME CATEGORY BY TRYING TO PURSUADE MCNAUGHTON THAT HYDRO-QUEBEC MIGHT BE A GOOD INVESTMENT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MONTRE 00142 02 OF 02 282342Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
AID-05 EB-08 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01
FRB-03 COME-00 SIL-01 LAB-04 SEC-01 OPIC-03 /090 W
-----290000Z 098942 /70

P R 282222Z JAN 77
FM AMCONSUL MONTREAL
TO SECSTATE WASHDC PRIORITY 8526
INFO AMEMBASSY OTTAWA
AMCONSUL QUEBEC
AMCONSUL TORONTO BY POUCH

C O N F I D E N T I A L SECTION 2 OF 2 MONTREAL 142

7. WHILE THERE IS GREAT DEAL OF SYMPATHY TOWARD POSITION OF HYDRO-QUEBEC, THERE IS NO DOUBT THAT IT WILL CONTINUE TO BE ADVERSELY AFFECTED BY SITUATION IN QUEBEC. PRUDENTIAL MANAGER COMMENTED THAT HE THOUGHT HYDRO-QUEBEC WAS BEST UTILITY IN NORTH AMERICA, AND THAT IF HE WERE RUNNING A 5-10 YEAR BOND FUND, WHERE HE WOULDN'T BE HELD ACCOUNTABLE FOR PRICE FLUCTUATIONS OVER NEAR-MIDTERM, HE WOULD BUY EVERY HYDRO-QUEBEC ISSUE HE COULD GET. EXECUTIVE VICE PRESIDENT OF MOODY'S SAID HE HAD BEEN ON POINT OF INITIATING REVIEW OF HYDRO-QUEBEC, WITH AIM OF UPPING ITS RATING TO AAA, BEFORE ELECTION. BOTH MOODY'S AND PRUDENTIAL COMMENTED THAT HYDRO-QUEBEC WAS MUCH STRONGER FINANCIALLY THAN AN AA RATED

U.S. INDUSTRIAL BOND. YET HYDRO-QUEBEC ISSUES COULD BE OBTAINED AT YIELDS OF 9.5 O/O AS COMPARED TO 8.2 O/O FOR AA INDUSTRIALS. UNFORTUNATELY FOR HYDRO-QUEBEC, THEY THOUGHT SPREAD COULD GET WORSE.

8. WHEN ASKED IF HIGHER YIELD MIGHT NOT PROVE ATTRACTIVE TO INVESTORS, FACILITATING QUEBEC'S ACCESS TO U.S. MARKET, INSURANCE COMPANIES AND MOODY'S THOUGHT THIS MIGHT NOT BE THE CASE, AS SAFETY AND ABSENCE OF UNCERTAINTIES WOULD STILL TAKE PRIORITY OVER ANY PREMIUM ON YIELD. ISSUE OF SEPARATION PRESENTED SUCH

CONFIDENTIAL

PAGE 02 MONTRE 00142 02 OF 02 282342Z

A UNIQUE PROBLEM THAT IT MIGHT WELL PROVE DIFFICULT TO ATTRACT INVESTORS AT ANY TOLERABLE PRICE. (IT WAS INTERESTING THAT PRUDENTIAL REPS LATER SAID THAT ITEM IN LEVESQUE'S BUSINESS WEEK INTERVIEW WHICH MOST BOTHERED FINANCIAL COMMUNITY WAS LEVESQUE'S REFERENCE, WHEN ASKED HOW QUEBEC WAS GOING TO FINANCE ITS DEFICIT, TO FACT THAT HYDRO-QUEBEC HAD MONEY, LEAVING IMPRESSION THAT PQ WAS READY TO RAID HYDRO-QUEBEC TREASURY IF NECESSARY).

9. THERE WAS GENERAL FEELING THAT QUEBEC WOULD HAVE TO TURN TO EUROPE OR MIDEAST FOR MUCH OF ITS CAPITAL REQUIREMENTS IN FUTURE. EUROPEANS, PARTICULARLY THE FRENCH AND BELGIUMS, WERE THOUGHT TO BE BOTH LESS INFORMED AND LESS CONCERNED ABOUT SITUATION IN QUEBEC. IN THIS CONNECTION, MOODY'S REP SAID THAT CITY OF MONTREAL WAS ABLE TO GET GOOD INTEREST RATE ON RECENT OLYMPIC LOAN ONLY BECAUSE EUROPEANS WERE NOT AWARE OF MONTREAL'S FINANCIAL PROBLEM. HE SAID EUROPEANS HAD SUBSEQUENTLY STARTED LOOKING INTO THE SITUATION, AND WOULD NOT TODAY BE WILLING TO ACCEPT SAME TERMS ON A MONTREAL ISSUE. NEVERTHELESS, HE THOUGHT EUROPEANS WOULD BE MORE WILLING TO LEND TO QUEBEC UNDER CIRCUMSTANCES THAN WOULD AMERICANS. ON THE OTHER HAND, THERE WAS GENERAL FEELING THAT OIL MONEY WOULD BE HARD TO ATTRACT TO QUEBEC, AS ARABS TO DATE HAVE BEEN EXTREMELY CONSERVATIVE, PREFERRING SHORT TERM OBLIGATIONS WITH NO RISK.

10. COMMENT: WHILE REACTIONS RECEIVED SHORTLY AFTER LEVESQUE'S APPEARANCE PROBABLY CONTAIN CERTAIN PORTION OF EMOTIONALISM, THERE APPEARS LITTLE LIKELIHOOD THAT INSURANCE COMPANIES WILL CHANGE THEIR POSITION IN FORESEEABLE FUTURE, UNLESS REFERENDUM IS SOUNDLY DEFEATED. LEVESQUE HAS INVITED CHAIRMAN MCNAUGHTON OF PRUDENTIAL ALONG WITH SENIOR FUND MANAGERS TO VISIT QUEBEC IN FEBRUARY OR MARCH. PERIOD BETWEEN NOW AND THEN WILL ENABLE LEVESQUE TO OBTAIN BETTER READING OF REACTION OF FINANCIAL COMMUNITY, AND HE PRESUMABLY COULD ATTEMPT TO RESPOND TO INVESTORS' CONCERNS IN FUTURE PRIVATE CONVERSATIONS. HOWEVER, GIVEN LEVESQUE'S STATEMENTS THAT QUEBEC WILL NOT BE HOSTAGE TO FINANCIAL COMMUNITY, HE WOULD PROBABLY FIND ANY BACKTRACKING

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MONTRE 00142 02 OF 02 282342Z

DIFFICULT TO SWALLOW. AND EVEN IF HE DID BACKTRACK, THE INVEST-MENT COMMUNITY, REMEMBERING NEW YORK, WOULD PROBABLY BE HARD TO CONVINCE. THUS, PREMIER LEVESQUE IS GOING TO BE UNDER INCREASING PRESSURE TO PARE HIS EXPENSES, AS DIFFICULTIES IN FINDING FUNDS AND INCREASED CARRYING CHARGES ON FUNDS THAT ARE OBTAINED, WILL PLACE A HIGH PREMIUM ON AN OPTIMUM ALLOCATION OF QUEBEC RESOURCES. POTENTIAL SOCIAL AND POLITICAL RAMIFICATIONS ARE OBVIOUS: CONTINUING HIGH RATE OF UNEMPLOYMENT, DISAPPOINTED ASPIRATIONS, AND, QUITE POSSIBLY, SERIOUS PQ INTERNAL SCHISMS (CF. QUEBEC'S 0031).
HARPER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, PUBLIC ATTITUDES
Control Number: n/a
Copy: SINGLE
Sent Date: 28-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MONTRE00142
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770031-1167
Format: TEL
From: MONTREAL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977019/aaaaahdd.tel
Line Count: 239
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fbefe4dd-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3677681
Secure: OPEN
Status: NATIVE
Subject: PREMIER LEVESQUE'S APPEARANCE IN NEW YORK
TAGS: EFIN, ECON, CA, US, (LEVESQUE, RENE)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/fbefe4dd-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009